77/GS/E

The Economy

Panama

March 1974

NATIONAL INTELLIGENCE SURVEY

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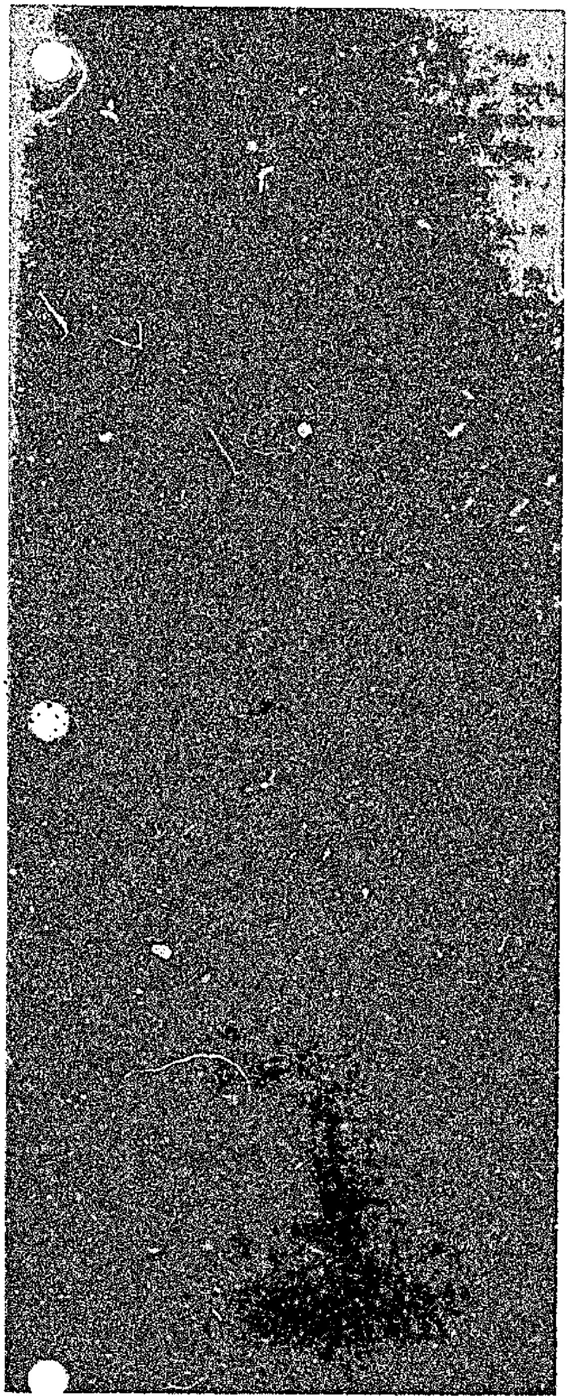

PANAMA

CONTENTS

This chapter supersedes the economic coverage in the General Survey dated March 1970.

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FIGURES

The Economy

A. General characteristics

One of the smallest nations in Latin America—in both area and population—Panama transcends the limitations of its size by virtue of its location. It has one of the highest per capita incomes in Latin America, mainly because of the highly advanced urban economy that has developed around the Canal Zone. Gross Domestic Product (GDP) was an estimated $1,322 million in 1972 (in current prices), or $868 per capita, with direct and indirect earnings from the Canal Zone accounting for more than one-third of the total. GDP has grown rapidly during the past decade.

Income distribution is strikingly uneven. The upper 10% of income recipients receive over 47% of the nation's income while the lower one-third receive less than 5%. In Latin America only Colombia has a more skewed income distribution, although Venezuela and Mexico approach it. Despite this uneven income distribution, however, general health and education indices in Panama are among the highest in Latin America.

1. Structure of the economy

Panama divides at the Canal Zone into two parts with different geographical characteristics. (See the inset map of the General Survey Summary Map in the Country Profile chapter.) The section from the Costa Rican border to the Zone resembles most of Central America, with central highlands, wet Caribbean lowlands, and moist Pacific slope. The eastern third of the country, however begins to exhibit land forms, climate, and vegetation characteristic of northwestern South America.

Most of Panama's 1.5 million inhabitants live in two well defined regions. Over one-third are concentrated within the transit area that includes the Canal Zone, Panama City and Colon[1] while more than one-half inhabit the Pacific lowlands and adjacent mountain slopes west of the Canal. These two areas of population concentration underscore the duality of Panama's geographical personality. The transit zone is chiefly urban, and its people are cosmopolitan of many races and nationalities. The western Pacific lowland is rural, and its people are true Panamanians, of mixed Indian, white, and sometimes Negro blood. This pattern of population distribution dates from the late sixteenth century, after the rise of Peruvian trade with Spain and the establishment of the transit route across the isthmus near the present canal.

Panama's dual personality is exhibited even more in its economy than in its population distribution. The more important of its two economic systems is the highly sophisticated urban economy of Panama City, Colon, and their environs, which is based on domestic and foreign trade and services and provides a comparatively high standard of living for most residents. The bustling economic activity in this

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[1] For diacritics on place names see the list of names on the apron of the Summary Map in the Country Profile chapter and the map itself

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section of the country generates more than half of the national income, partly in the form of wages paid to Panamanian nationals working in the Canal Zone and partly as receipts from trade with Canal Zone residents and with tourists and foreign transients.

The other economic system is the agriculture-based economy that provides a subsistence or low-income standard of living. Agriculture produces a constantly decreasing percentage of GDP—only 17% in 1972 (Figure 1). The majority of farmers produce mainly for family subsistence and raise little for market. Low output in the agricultural sector and costly domestic transportation mean that the urban areas often can buy more cheaply on the world market than from the interior of the country.

2. Economic growth and government policy

Real GDP grew only about 5% per year during the 1950's, but the rate increased to about 8% per year during 1960-72 (Figure 2). In only 2 years since 1960 was the growth rate significantly below this average: 1964, when real GDP grew only 4.4% because business confidence weakened following riots in January, and 1968, when political instability again caused a loss of business confidence and the growth rate slowed to 5.3%.

The growth of real GDP was sparked by expansion in construction and manufacturing, by strong export performance, and by rising wages for the 10% of the country's urban labor force employed in the Canal Zone. Growth also was aided by sizable direct U.S. investment, especially in the latter years of the period. The book value of such investment rose from $1,072 million in 1969 to $1,461 million in 1971. The U.S. investment, which is concentrated in manufacturing, commerce, and banking, has been encouraged by Panama's use of the U.S. dollar as its currency and, in consequence, the relatively few restrictions placed on financial and foreign exchange transactions. Value added by the financial sector, although accounting for less than 5% of GDP, has increased by over 400% in real terms since 1960. This sector has been an important factor in the economy's growth because of its impact on other sectors, such as construction, tourism, and other services. The rapid expansion of foreign bank deposits in recent years has made a major contribution to private sector growth.

The government traditionally has not been an effective force in economic development. The government of General Omar Torrijos, however, in contrast to its predecessors, believes that the public sector can play a leading role in economic development, especially through a high level of public investment. The development strategy of the Torrijos government is to encourage the rapid growth of Panama City and Colon as financial, commercial, and tourist centers and to distribute a larger share of the increased public revenue gained from these centers to the rural periphery.

3. Possible problem areas

Maintenance of the high level of public investment desired by Torrijos depends on extensive foreign financing. A high level of commercial borrowing will be necessary to finance Panama's projected $50 million average annual debt servicing obligations and to meet the local counterpart expenses of planned foreign-aid-financed projects. Even if the govern-

FIGURE 1. Real gross domestic product by sector

SECTOR	MILLIONS OF U.S. DOLLARS 1960	MILLIONS OF U.S. DOLLARS 1972	PERCENT 1960	PERCENT 1972
Agriculture, forestry, and fisheries	95.7	178.0	23.0	17.0
Mines and quarries	1.1	2.7	0.3	0.3
Manufacturing	54.5	177.4	13.1	17.0
Construction	22.0	69.1	5.5	6.6
Public entities	8.4	34.3	2.0	3.3
Transport and communications	19.3	74.1	4.6	7.1
Commerce	57.0	149.2	13.9	14.3
Financial intermediation	10.3	45.8	2.5	4.4
Housing rent	34.5	71.0	8.3	6.8
Public administration	11.4	26.8	2.7	2.6
Other domestic services	69.4	143.2	16.7	13.7
Services to the Canal Zone	30.4	73.0	7.3	7.0
Total	415.8	1,045.2	100.0	100.0

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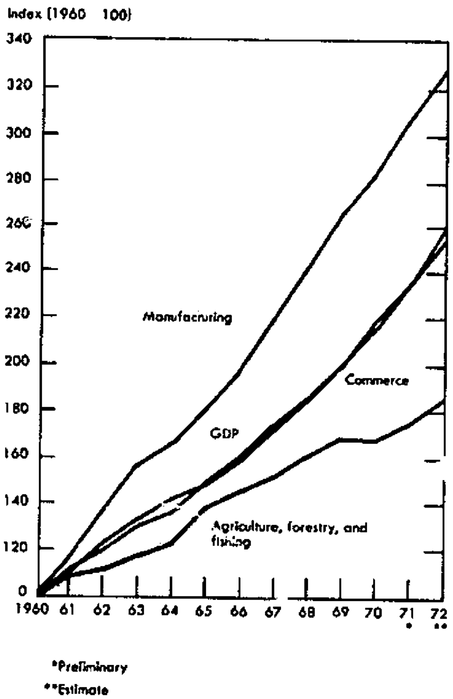

FIGURE 2. Growth of real GDP and selected components

ment's ambitious plan is reduced to more realistic levels, large commercial borrowing still will be necessary. If Torrijos should permit differences over renegotiation of the Canal treaty to lead to a serious rupture in relations with the United States, the government's ability to arrange the needed commercial loans would be extremely limited. Moreover, the highly liquid funds in foreign bank deposits, which undoubtedly are largely U.S.-owned, could be withdrawn almost instantaneously in the event of a serious deterioration in U.S.-Panamanian political relations, creating a major economic crisis for Panama.

B. Sectors of the economy

1. Agriculture

a. General

Agriculture still is Panama's most important economic sector, but by a very small and declining margin. Its share in GDP declined from 20% in 1968 to 17% in 1972, about equal to that of manufacturing. However, about 40% of the population derives its livelihood directly from agriculture. Moreover, almost one-third of total agricultural production is exported, and the sector provides about three-fourths of all exports. The principal export crops are bananas, sugar, coffee, and cocoa. Production for domestic consumption is dominated by rice, corn, livestock, and vegetables. Panama is not self-sufficient in foods. In 1970 imports provided 20% of per capita caloric consumption. Food and beverages account for 10% of all imports.

Agricultural output increased an average of 6% per year during the 1960's but faltered in the early 1970's. In 1972 it was only 9.7% greater than in 1969. Hurricanes, untimely rains, and shortages of fertilizers and other inputs caused a 0.7% drop in production in 1970, and recovery was slow. Output in 1971 was only 3.5% above the 1969 level. In 1972 the growth rate returned to the 1960's average of 6%.

There are two distinct types of agricultural production in Panama. Export production is characterized mainly by foreign ownership of modern, medium- to large-scale holdings, with adequate financing and irrigation. Export crop yields are slightly above Latin American averages. Production of food for domestic consumption, on the other hand, is handicapped by small-scale farms, primitive techniques, and inadequate financing, transportation, and irrigation. Production of meat—beef, pork, and chicken—and of fish is neither as advanced as export crop production nor as backward as subsistence farming.

b. Land use and ownership

Agriculture is concentrated in the western provinces. Eastern Panama is almost completely covered with tropical forests and has little agriculture. Rugged terrain, limited transportation, and heavy rainfall limit the agricultural potential of this area.

In 1970, the last year for which detailed data are available, slightly over one-third of Panama's land area was used for agriculture (Figure 3), a gain of about 10 percentage points over 1960, when less than one-fourth was used. Practically all expansion in agricultural production during the 1960's came from increased acreage, as yields changed very little. About half of the land brought into use during the decade had been exploitable forest area; the other half was previously unused. Pasture and fallow accounted for about 19% of total land area in 1970 and cropland for 15% (56% and 44% of agricultural land, respectively). Roughly one-third of the cropland was in perennial

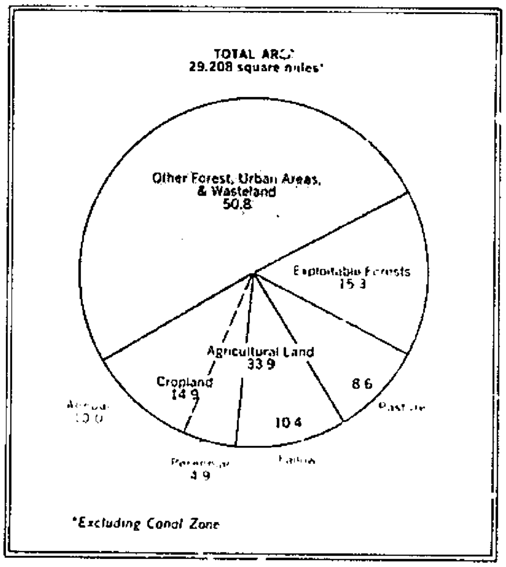

FIGURE 3. Land use, 1970

crops such as coffee and fruits and the remainder in annual crops.

Along with the high cost of land development, the primitive methods typical of shifting agriculture severely limit the size of most farm units. In 1970, 60% of all farm units were 40 acres or less. Large farms, used mainly for cattle raising and export crops, account for most of the pasture and fallow but for only a small portion of the cropland. Because of the ready availability of land to subsistence farmers willing to clear it, slash-and-burn farming is common, and land tenure is casual. About 20% of farm units were held under clear title in 1970. More than 68%—mostly on government lands—were occupied by squatters, and the remaining 12% were held under various forms of communal ownership without clear title.

In 1962 the Agrarian Reform Commission (*Comision de Reforma Agraria*—CRA) was established to clear land titles and to resettle farmers on government lands. The CRA, administered by the Ministry of Agriculture and Livestock Development, also is responsible for providing a wide range of agricultural services such as technical assistance, credit, and marketing. Lack of funds has limited CRA activities, but a few resettlement projects have been initiated. These involve developing infrastructure such as roads, schools, water supplies, and crop storage facilities. Although sale terms are easy—$5-$50 per acre and 20-year interest-free loans—a fear of taxes keeps most subsistence farmers from obtaining title under the program. The CRA also undertook a natural resources survey in the late 1960's.

In early 1969 the government began to acquire privately owned land occupied by squatters, compensating the former owners with government bonds. The program has made moderate progress. By mid-1972 some 5,300 families had been settled on 200,000 acres.

c. *Agricultural inputs*

Use of farm machinery and chemical fertilizers is limited to the larger, export-oriented farms. Banana plantations, traditionally the most advanced farm units, are the principal users of farm machinery, chemical fertilizers, and irrigation facilities. Irrigation and fertilizer also are used extensively in rice and sugarcane cultivation.

Food crops other than rice are produced mostly on subsistence farms under primitive conditions. Subsistence farmers tend to meet increased demand by increasing acreage under cultivation rather than by improving methods, and yields thus have increased little. Moreover, without irrigation yields are highly vulnerable to fluctuations in rainfall. Low levels of education in rural areas and a lack of credit and of agricultural extension services tend to perpetuate primitive farming methods.

Agricultural investment is hampered by insufficient savings, lack of credit, and the inadequacy of the marketing system. Large commercial farmers have access to short-term credit from commercial banks and government sources, but small farmers generally have been unable to obtain short-term credit because they lack proper titles. Under a government program initiated in 1966, small farmers now have access to some credits secured only by prospective crops, provided the borrower agrees to follow a crop plan worked out with a government extension agent. In 1970, however, only 10% of Panama's farmers used these credits.

d. *Principal crops*

(1) *Export crops*—Bananas are by far the most important crop, usually accounting for 30% of agricultural output (Figure 4) and 40%-50% of commodity export earnings. Small independent growers in the Gatun Lake area near the Canal Zone supply the domestic market. The Chiriqui Land Co., a subsidiary of United Brands, dominates banana production for export. Bananas exported by the company are grown on its two plantations and by small farmers under contract to the company. The two

FIGURE 4. Principal crops: production and area harvested

	1969-70	1970-71	1971-72
Production (*thousand metric tons*):			
Export crops:			
Bananas	670.0	680.0	680.0
Coffee	5.1	4.5	5.6
Sugarcane	880.0	1,000.0	1,072.0
Crude sugar	84.0	87.0	96.0
Crops for domestic consumption:			
Rice	109.1	95.4	89.9
Corn	87.5	55.8	54.3
Beans	4.9	4.5	4.6
Tobacco	0.8	1.1	1.2
Area harvested (*thousand acres*):			
Export crops:			
Bananas	*na*	*na*	*na*
Coffee	*na*	*na*	*na*
Sugarcane	52.1	52.1	70.2
Crops for domestic consumption:			
Rice	310.6	237.5	250.6
Corn	253.3	171.2	178.0
Beans	41.8	44.7	47.0
Tobacco	1.7	2.9	2.9

na Data not available.

plantations, located in western Panama near the Costa Rica border, are the Almirante Division on the Caribbean coast in Bocas del Toro Province and the Puerto Armuelles Division on the Pacific coast in Chiriqui Province. Growing labor difficulties have led the Chiriqui Land Co., since 1962, to sell land to Panamanians while retaining rights to buy and distribute their production. In 1970 there were 27 such independent producers. In addition, the company has given or sold to the government over 14,000 acres of its other land for redistribution to landless farmers.

Large-scale banana production faces serious weather and disease hazards. Windstorms and rainstorms occasionally destroy millions of plants, as in late 1970, and fungus infestations make repeated inroads despite intensive preventive measures. A new variety of banana introduced on the Bocas del Toro plantation has proved resistant to blight, and the method of encasing stems in plastic bags while growing to prevent insect damage has raised yields sharply.

Banana production averaged a 9% annual increase from 1962 through 1967. During 1968-72, however, it grew less than 1% annually, partly because of adverse weather. Prospects for future increases are poor, because labor problems in Panama and relatively low banana prices in the United States have led the United Brands to restrict new investment.

Sugarcane production, like banana production, grew rapidly through the mid-1960's but stagnated during the next few years because of poor weather, political unrest, and equipment failures. In 1971 and 1972, however, it recovered to the 1965 peak level of about 1 million metric tons. Production probably will expand over the next few years, because a new sugar mill was completed in Veraguas Province in 1973, and the government has undertaken a massive effort to assure adequate supplies of cane for its operation.

In the past all export sugar was processed in two large mills owned by Star Sugar Co. and National Sugar Co. All sugar exports go to the United States under Panama's quota. In most years Panama has filled its quota and received supplementary allocations. Total 1972 exports probably reached 40,000 tons, and the quota is to be increased in 1973.

Although Panama, unlike its Central American neighbors, does not grow large amounts of coffee for export, coffee is the third most valuable export crop. Premium-quality coffee for export is grown on about 270 small- and medium-size farms in the Chiriqui highlands, where soils are rich and rainfall adequate. Exports, mainly to Western Europe, range between 300 and 1,700 metric tons annually. Lower quality coffee for domestic consumption, approximately 70% of production, is grown mainly in the central provinces. Total production has fluctuated around 5,000 metric tons since the mid-1960's. Recent studies indicate that with continued growth of domestic consumption Panama will become a net coffee importer in the mid-1970's.

Fruit juice concentrates could become a substantial export item in the future, with improvement in the quality of fruit and organized marketing efforts. The Chiriqui Citrus Co. is investing about $5 million in 10,000 acres of orange groves and a juice-processing plant in the Hato del Volcan area.

(2) *Food crops*—Food production has not kept pace with the growth in demand. Panama was nearly self-sufficient in the 1960's, but imports in 1973 probably supply about one-fourth of total caloric requirements. Most staples are produced domestically, wheat being the most notable exception. Wheat imports have grown steadily, from about 30,000 tons in 1967 to 50,000 tons in 1972.

Rice is a staple food of the population and is grown on almost every farm. With normal weather the country is practically self-sufficient in rice, importing only token amounts. Rice production expanded steadily through 1970. In 1971, however, rice acreage fell 24% and production dropped 22%. In 1972 production partially recovered to a level 18% below the 1970 record.

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About 80% of the rice crop is produced by small farmers using extremely primitive techniques. The remainder comes from mechanized rice farms, located mainly in the southern part of Cocle and Chiriqui Provinces. Owners of these farms have taken advantage of the government's improvement of storage facilities, loan extensions, and high price supports.

Corn is the second most important staple and is raised on more than two-thirds of the farms. It is cultivated largely on hillsides by hand. Corn is used most widely as cornmeal in cooking and *chicha*, a popular local drink. It also is important as feedgrain for poultry.

Corn production increased fairly steadily through 1970 because of increased acreage. Failure to improve cultivation techniques has kept yields practically stagnant. Production dropped 36% in 1971 and another 2% in 1972 because of adverse weather.

Panama grows small amounts of vegetables, but shortages are common because of poor storage and marketing facilities. Imports of some vegetables—particularly onions, garlic, and potatoes—are important. Commercial vegetables are produced in a few areas near Panama City and Colon and along the highways. Many of the 4,000 small vegetable gardens are operated by Chinese growers. Tomatoes are grown in large quantities, and about 30,000 farms raise peas. Peppers, avocados, and watermelons are other leading products. Eggplant, okra, green beans, squash, and other minor vegetables offer a largely unexploited potential.

Tobacco production, confined to 200 acres on 1,200 farms in the dry lands, meets only about one-half of domestic demand and is able to supply only two cigarette factories. Output varies greatly from year to year. In 1972 it reached 1,182 tons.

e. Livestock

The gross value of livestock production grew from about $28 million in 1960 to about $49 million in 1970, an increase of 6% per year. The livestock share in total agricultural production, however, has remained nearly constant at 27%. Cattle account for slightly over one-third of this. The importance of pork production declined during the 1960's, while poultry production increased rapidly. In addition to livestock for food, Panama also has about 160,000 horses and 5,000 mules and donkeys.

Beef cattle dominate the livestock industry. The national beef herd has increased at an annual rate of 4.6% since 1961 and numbered approximately 1.2 million head in 1972. About 65% of the cattle are concentrated in Chiriqui, Veraguas, and Los Santos provinces. Originally Panamanian cattle were of criollo stock, but herds have been largely upgraded to Brahmans as a result of encouragement from the Panamanian Cattle Institute, which contributes $150 per head toward shipping charges for imported breeding stock, and from the National Bank of Panama, which grants loans for stock improvement.

Dairy cattle, numbering nearly 100,000 head, are mainly Holsteins and Brown Swiss. Eighty percent of dairy stock is concentrated in Chiriqui, Herrea, and Los Santos provinces. About 9,000 farms produce milk, but only a few are specialized dairy farms. The specialized farms are located near Colon and Panama City, where fresh milk is consumed, and near processing plants in Nata, Aguadulce, and Concepcion. In 1970, the dairy industry produced about 75 million quarts of milk. Panama does not import fresh milk, but in 1971 it imported about 5,000 tons of milk products.

Pork production has been decreasing since 1960 because of high costs. In 1970 pork accounted for only about 7% of total livestock production, compared with about 10% in 1960. Hogs, numbering about 150,000 in 1971, are common on many farms, but large-scale commercial production is limited to only a few specialized farms, mainly in Veraguas and Los Santos provinces.

Panama became self-sufficient in poultry and poultry products during the 1950's. About 69,000 farms raise poultry, and the commercial poultry farms are modern and large. In 1971 only hatching eggs were imported, because the 3.9 million laying hens supplied sufficient fresh eggs for domestic consumption. Meat chickens, mainly broilers, numbered 8 million in 1971. Flocks of turkeys and ducks number about 35,000 and 113,000, respectively.

Panama's animal production is not constrained by any major disease, including foot-and-mouth disease. The lack of road communication has protected Panama from introduction of this disease from Colombia, but the situation may alter with completion of the Inter-American Highway. The Pan-American Health Organization has recommended creation of a cattle-free buffer zone in northern Colombia along the Panama border. If the Colombians do not establish adequate protective measures, the Panamanians have indicated that they will reinforce the buffer zone on their side of the border.

Panama is a net importer of meat because of its sizable imports of pork. In 1972 it imported an estimated $4 million worth of pork products, Denmark being the major supplier. It is self-sufficient in beef, however, and in 1972 it exported an estimated 4.7 million pounds of boneless beef. The main market for Panamanian beef is the United States.

f. Fisheries

Fisheries provide employment for some 4,600 persons and account for about 1% of GDP. Shrimping dominates the industry. Since the early 1950's Panama's shrimp exports to the United States have been second only to those of Mexico. The shrimp catch in 1971 amounted to about 6,400 metric tons, and exports in 1972 were valued at about $15 million, making shrimp the third largest export. Shrimp beds are located in the Gulf of Panama and to a lesser extent on the Golfo de Chiriqui. Conservation laws safeguard the beds in the Gulf of Panama by limiting the number of shrimp boats that can operate.

Two main species of small pelagic fish (anchovy and thread herring) are caught by the purse seiner fleet for processing into fish meal and fish oil by two reduction plants. The reduction process produces about 18% of the raw fish weight in fish meal and about 2% in fish oil. Total fish catches fluctuated dramatically during 1965-70, but the annual average was only about 51,000 metric tons, with a high of about 66,000 tons in 1966.

Domestic demand for fish is met by independent fishermen, small fishing cooperatives, and shrimpers who catch fish in their operations. The food fish catch averaged 3,500 tons during 1968-70, and 675-1,000 metric tons of salted and canned fish are imported annually. Inadequate marketing and transportation facilities limit fish consumption mostly to port areas.

g. Forestry

Although forests account for more than half of Panama's land area and are one of the most valuable natural resources, commercial exploitation has been very limited. Mahogany, Spanish cedar, cupio (a soft wood), and cativo (suitable for plywood) are among the more important of several hundred species found in Panama.

Commercial production of forest products is confined mainly to small quantities of sawnwood, plywood, paper, and cardboard. Tree removal is estimated to be 1.8 million cubic meters annually. Most Panamanian requirements for wood products are satisfied by imports.

2. Fuels and power

As late as the 1950's wood provided more than half of all energy consumed in Panama, but by the end of the 1960's this source furnished less than 20% of the total. Apart from hydroelectric power potential, the country has no known exploitable resources of primary energy. Almost all commercial energy requirements are satisfied by petroleum imports. Commercial consumption of solid fuels is limited to a few hundred tons of coke imported for the country's small iron foundries and steel rolling mills.

a. Petroleum

The Panama Refinery Company produces a wide range of petroleum products from imported crude oil at its plant at Bahia Las Minas, near Colon. This refinery, controlled by Texaco, Panama, Inc., a wholly owned subsidiary of Texaco, Inc., started operations in late 1962 and has expanded production capacity to over 70,000 barrels per day. Texaco has announced the start of the first stage of a planned $10 million expansion program that will raise capacity to approximately 100,000 barrels per day. Output considerably exceeds Panama's requirements for most petroleum products. Lubricating oils, propane, and aviation gasoline are not produced, however. Imports of these products and fuel oil amounted to about $2.4 million in 1971.

Crude oil is Panama's largest single import. About 28 million barrels were imported in 1971, at a cost of some $64 million. In an effort to reduce dependence on imports, the Panamanian government is trying to attract private investment funds to locate and develop possible offshore petroleum deposits. Refined petroleum made up about one-fifth of exports in 1971 and was the largest export item aside from bananas. Approximately one-third of the 6.9 million barrels exported in 1971 went to the United States, about 20% to Mexico, 15% to the Canal Zone, and small quantities to Canada, Peru, and the United Kingdom.

b. Electric power

The electric power system adequately serves Panama City, Colon, and the northwestern part of Chiriqui province. In 1972 installed capacity was about 175,000 kilowatts (kw.).[2] and production was 660 million kilowatt-hours (kw.-hr.) or 440 kw.-hr. per capita. Demand has been increasing 13% annually for the past 5 years.

About 75% of generating capacity and 90% of output is thermal. Only about 5% of the estimated hydroelectric potential of 1.5 million kw. is being used. The largest generating plants are the 116,000-kw. Bahia Las Minas thermal plant east of Colon and the 38,000-kw. San Francisco thermal plant in

[2]In addition, the Canal Zone has an installed capacity of 203,000 kw.

Panama City. The largest hydroelectric installation is the 12,000-kw. La Yeguada plant in the central province of Veraguas. The major transmission system conveys power from the Bahia Las Minas plant across the Canal Zone to Panama City and Colon via 115-kilovolt (kv.) and 44-kv. lines with a few lateral links. There are short independent 34.5-kv. systems in Chiriqui province and the central provinces.

About 10% of the power produced is exported to the Canal Zone. Nearly 80% is consumed in Panama City and Colon, and the remainder is distributed about equally between Chiriqui province and the central provinces. Domestic consumption is distributed as follows: commercial, 39%; residential, 34%; industrial, 16%, and public services, 11%.

Public utilities own 97% of production capacity. The principal producer is the Institute of Hydraulic Resources and Electrification (*Instituto de Recursos Hidraulicos y Electrificacion*—IRHE), an autonomous government corporation. In 1972 the IRHE was designated to coordinate and operate all new power projects. A few small public utility companies serve local customers. Private companies are few and their plants are small. Equipment for power facilities is imported, mainly from the United States, Italy, Spain, and Yugoslavia.

In 1972 the IRHE set up a 5-year national energy development program, including the pooling and interconnection of all generating capacity. This program calls for adding 95,000 kw. of capacity to the Bahia Las Minas plant and a 5,000-kw. gas turbine to the San Francisco plant. A 150,000-kw. hydroelectric plant at Bayano, northeast of Panama City, is scheduled for completion in 1976. Also planned is a 200,000-kw. hydroelectric complex at La Fortuna, in Chiriqui province. New high-voltage transmission lines are to be built between the new generating facilities and the largest consumption centers.

3. Metals and minerals

Several small firms quarry limestone, clay, shale, sand, and gravel. In 1972 output was valued at only $2.7 million. About 11,000 metric tons of salt are produced annually by natural evaporation of sea water. Two companies supply cement to the domestic market. Expansion now in progress at one of them should make the country self-sufficient at the current level of demand.

In 1972 a Japanese firm began exporting magnetite ore from black sand beaches west of Panama City. After four 25,000-ton shipments of high-grade ore to Japan, an accident which damaged the slurry pipe loading facilities prevented further shipment. The Panamanian Government is studying the feasibility of exploiting copper deposits found by a United Nations mineral survey team in 1968 and has negotiated for several years with a consortium of Japanese firms; a contract for copper exploration was signed in July 1973. Even if these deposits are found to justify commercial exploitation, actual production probably cannot begin before the end of the 1970's. Deposits of bauxite, manganese, gold, and lignite are too small to be commercially significant.

4. Manufacturing and construction

a. Manufacturing

The manufacturing sector, most of which has developed since World War II and especially since 1954, has been a leader in economic growth in recent years. In constant dollars, output grew an average of 11.3% annually from 1960 to 1972, and the manufacturing share in GDP rose from 13% to 17%. Manufacturing expansion in the late 1950's was concentrated in the construction materials industry and food processing. Since then, most investment has been in import-substitution facilities that also have some export potential.

Manufacturing enterprises are relatively small. Of some 2,070 enterprises registered with the government in 1969, only eight declared a capital investment of $1 million or more and only one—the brewery *Cerveceria Nacional, S.A.*—had more than 1,000 employees. About 90% of the fixed capital in manufacturing is in the Panama City and Colon areas. Elsewhere, a large share of production originates in handicraft enterprises, which number about 15,000. Because of the limited domestic market and the early stage of industrialization there are strong monopolistic tendencies in many branches of industry, especially those where heavy initial investment is required, such as brewing, edible oil production, cement making, and plywood manufacture.

Panama approaches self-sufficiency for most processed foods and beverages. It depends heavily on imports for most other manufactured goods, except for footwear, clothing, petroleum products, and some metal shapes. Imports provide virtually all machinery and equipment.

Further growth of manufacturing is impeded by a limited domestic market. The nature of future investment will be influenced by the Industrial Incentives Law of August 1971, which provides various fiscal incentives as well as tariff and quota protection in order to promote industrial investment and encourage geographic decentralization and export consciousness.

FIGURE 5. Value added in manufacturing

	VALUE ADDED				AVERAGE ANNUAL GROWTH OF VALUE ADDED
	Millions of dollars, 1960 prices		Percent of total**		Percent
	1960	1970*	1960	1970	1961 1970
Processing of agricultural and forest products:					
Food, beverages, and tobacco	27.0	64.9	51.2	41.7	8.8
Footwear and clothing	5.4	10.8	9.5	6.9	7.2
Wood and furniture	4.3	11.8	7.0	7.6	10.6
Leather products	0.6	0.6	1.1	0.4	0.0
Nonmetallic intermediate goods:					
Paper products	0.8	7.0	1.5	4.5	24.2
Chemical products	2.1	3.9	3.9	2.5	6.4
Petroleum products***	0.0	8.4	0.0	5.4	...
Mineral products (mostly construction materials)	5.2	13.6	9.5	8.7	10.1
Metal products and miscellaneous:					
Metal products	2.1	17.8	3.9	11.4	23.9
Miscellaneous	6.1	16.8	11.1	10.8	10.7
Total	51.5	155.6	100.0	100.0	11.1

... Not pertinent.
*Preliminary.
**Figures may not add to totals because of rounding.
***Production of refined petroleum products did not begin until 1962.

(1) *Agricultural processing*—Industries producing foods, beverages, and tobacco products still dominate manufacturing, but their share of output has declined since 1960 (Figure 5). Among the more important establishments are 7 slaughterhouses, 17 milk pasteurizing and processing plants, 3 wheat flour mills, 1 large and 200 small rice mills, 2 fish reduction plants, 3 sugar mills, several vegetable canneries, almost 200 bakeries, 2 edible oil plants, 2 cigarette manufacturers, and 2 breweries. The leading food enterprise is the Panamanian Food Company (*Compania Panamena de Alimentos*), which is the largest milk processor and also has its own tin can factory. It produces fruit juices, catsup, tomato juice, and instant coffee during the slack milk season.

Panama completed its first textile mill in 1967. By 1970 there were six small textile mills producing a variety of fabrics. Readymade dresses and suits are produced by 65 firms, and more than 100 shops tailor clothes to order. Footwear produced from domestic leathers and imported plastics satisfies domestic demand for low-priced items. The furniture industry consists entirely of small firms, and only a few of the 65 sawmills are of commercial importance. One of the largest mills covers almost the entire domestic demand for plywood, veneers,and railroad ties.

(2) *Nonmetallic intermediate goods*—Aside from construction materials, the only intermediate goods produced in appreciable quantities are petroleum and paper products. In terms of value added and capital investment, the petroleum refinery near Colon is the most important manufacturing enterprise in Panama. There are no paper mills, but several plants manufacture cardboard, paper containers, and other paper products. The chemical industry produces mainly soap, detergents, and paints from imported materials and packages pharmaceuticals. The rubber industry is limited to tire recapping shops.

(3) *Metal products and miscellaneous industries*—Output of metal products increased from $2 million in 1960 to $18 million in 1970. Raw materials for these products—mainly bars, plates, ingots, and billets—are imported. The most important facilities are two small steel rolling mills and an aluminum extrusion plant, all in Panama City. The rolling mill owned by *Acero Panama, S.A.*, has an annual capacity of 10,000 tons and produces reinforcing bars and small quantities of

other shapes and fencing. The second plant, owned by *Productora de Acero y Afines Asociada, S.A.*, started operating in late 1967 and manufactures mostly bars, beams, and angles. The aluminum extrusion plant, *Aluminio de Panama, S.A.*, produces tubing, conduit pipes, frames, jalousies panels, and roofing. Several small firms manufacture such aluminum products as bottled gas cylinders, valves, and bottle caps. The manufacturing sector also includes several tin can manufacturers, numerous small repair shops, and several small boat yards.

b. Construction

Construction has expanded at an average annual rate of 9.6% since 1960 and has been an important expansionary force in recent years. The construction industry, which consists of about 240 small contractors and six or seven larger companies, contributed 7.6% of GDP in 1972. In addition, major foreign-financed public works projects are built by foreign firms on contract.

The private sector normally accounts for two-thirds of total construction, and 70% of construction permits (by value) are issued for Panama City. Residential buildings make up 70% to 75% of private construction, but housing construction is far short of what is needed even to keep pace with population growth, much less reduce overcrowding and improve housing quality. More than half of the 287,000 housing units in Panama are officially rated inadequate, but in the first 10 months of 1971 only 5,689 units were built.

5. Canal Zone

The Canal Zone is the most important factor in Panama's economy. In 1972 the Zone contributed more than $75 million directly to the GDP, nearly all of it in the form of wages and salaries of Panamanians employed in the Zone. These employees, numbering nearly 23,000, represented about 5% of Panama's total labor force and 8% of the nonagricultural labor force. Panama's gross receipts from the Zone—including wages, sales of goods and services, and the $1.9 million Canal annuity from the United States—increased from $104 million in 1965 to an estimated $173.8 million in 1972 (Figure 6). On the average, only $5 million of this total was offset by annual payments to the Zone for goods and services. Taking into account its role in encouraging tourism and creating the Colon Free Zone (*Zona Libre de Colon*), the Zone contributes about 30% of GDP directly and indirectly.

During the 1950's the Canal Zone's direct and indirect contribution to Panama's GDP declined with the reduction in the U.S. military establishment after World War II. Since 1959, however, benefits from the Zone have risen substantially. A large factor in the rise was the implementation of provisions in the Canal Zone Treaty revision of 1955 that markedly increased wages of Panamanian employees, broadened fringe benefits such as health insurance and retirement pay, and removed most restrictions on the types of positions available to qualified Panamanians. In addition, the Panama Canal Company (PCC) discontinued many of its own commercial activities to encourage expansion of Panamanian exports to the Zone and terminated commissary privileges for Zone employees who were not U.S. citizens. Panama also gained from the withholding, on behalf of the government, of taxes on Panamanian citizens' salaries, from the construction and maintenance of the transisthmian highway and the Thatcher Ferry Bridge at Panama City, and from provision of public health services and training programs.

The Panama Canal is almost 60 years old. Efforts have been made to improve its operations, and studies have been conducted to determine the feasibility of enlarging the locks, which are too small to handle many of the world's larger ships. Consideration also is being given to building a new sea-level canal at another site in Panama.

6. Domestic trade

Wholesale and retail trade accounted for about 14% of GDP in 1967. The trade sector is relatively large because of Panama's heavy dependence on foreign trade and tourism and the dominance of trade in the Canal Zone. The most important trade centers are Panama City and Colon, at opposite ends of the canal, and David, which serves the agricultural area in the southwestern part of the country. Difficult transportation between these centers and the interior hampers domestic commerce. Ships distribute some merchandise along the coasts.

Urban centers have a variety of goods outlets ranging from open stalls to supermarkets and specialty shops. In rural areas, on the other hand, commercial activity is centered in general stores, groceries, and *cantinas*. Some of their proprietors also act as wholesale agents in purchasing agricultural products.

C. Government finance and economic policy

1. Economic policy and programs

The government of General Omar Torrijos has become a motivating force for economic growth. It controls several commercial enterprises and has been rapidly increasing public investment. It also has

FIGURE 6. Gross receipts from the Canal Zone
(Millions of U.S. dollars)

	1965	1967	1970	1971	1972 (EST.)
Wages, salaries, and other payments to Panamanians employed in the Canal Zone	50.7	60.1	82.2	87.4	91.0
Direct purchases of goods and services in Panama by U.S. Government agencies	14.4	18.9	24.5	23.5	26.1
Purchases of goods and services in Panama by private organizations and contractors operating in the Canal Zone	15.7	19.6	15.4	16.6	15.7
Expenditures in Panama by residents of the Canal Zone	21.4	30.7	37.3	38.6	39.1
Panama Canal annuity from the U.S. Government	1.9	1.9	1.9	1.9	1.9
Total	104.1	131.2	161.3	168.0	173.8

shown intense interest in regulating business activities and controlling prices of some basic necessities.

The government's main objectives for economic development were laid down in general terms in a Strategy for National Development published in 1970. This document specifies two fundamental economic aims: economic expansion through export diversification, and regional and national economic integration through better exploitation of the country's agricultural, forestry, mining, and fishing resources.

This Strategy was translated into a 5-year plan of public investment expenditures, initially for the period 1971-75, subsequently updated to cover 1973-77. The plan projects total public expenditures, which are to concentrate heavily on infrastructure and social overhead capital investment, at $660 million over the 5 years, compared with only $221 million during 1967-71. Investments are to be distributed as follows (in percent):

Agriculture	9
Commerce, industry, and tourism	6
Education	5
Electricity	26
Housing	5
Transportation	40
Water, sewerage, and health	8
Other	1

Although the government authorities probably are capable of preparing and executing this ambitious investment plan, public savings and long-term external official loans available for financing it probably will be inadequate. Expenditures thus may have to be reduced, perhaps by as much as one-third.

2. Public finance

The central government dominates financial operations in the public sector, which also includes 21 autonomous entities and 10 local governments. The central government accounts for about 65% of total public revenues and expenditures and for almost 75% of investment expenditures. The autonomous entities, which account for about 30% of revenues and expenditures, include the social security system, the two state-owned banks, and a number of other agencies such as the University of Panama, the IRHE, the Housing and Urbanization Institute (*Instituto de Vivienda y Urbanismo*—IVU), and the Institute for Economic Development (*Instituto de Fomento Economico*—IFE). The National Lottery, racetracks, and casinos are state monopolies and must transfer their profits to the central government.

a. Revenues of the central government

The main source of government income shifted radically after the tax reform of 1964. Previously the government's revenue came mainly from import and export duties, excise taxes on alcohol, and gambling activities. Income and property tax rates were low. Since 1964, the income tax has become the most important source of revenue. In 1971 it accounted for an estimated one-third of revenues (Figure 7). Customs and nontax revenues have become relatively less important, although they have been increasing in absolute terms.

During 1968-71 total revenue increased 15% annually. Most of the increase resulted from higher income tax rates, improved administration, and more vigorous tax enforcement. New consumption taxes, introduced in 1970 and 1972 as part of the government's strong effort to reduce dependence on foreign loans for domestic financing, also raised revenues.

b. Expenditures of the central government

Central government spending underwent a basic change in 1969, when investment expenditures more than doubled (Figure 8). Before 1969 the central government followed a pattern of modest current

FIGURE 7. Central government current revenues
(Millions of Balboas)

	1968	1969	1970	1971	1972 BUDGET	1973 BUDGET
Income tax	37.3	41.0	54.5	60.0	66.2	*na*
Property	5.2	6.5	6.9	8.6	8.8	*na*
Inheritance and gift taxes	0.2	0.7	0.7	1.0	0.5	*na*
Foreign trade taxes	27.8	31.2	37.0	41.5	51.0	*na*
Sales and excise taxes	21.2	24.0	29.0	32.3	52.2	*na*
State monopolies and enterprises	15.4	15.3	17.1	21.4	23.5	*na*
Public services	6.5	7.3	7.6	8.1	9.1	*na*
Other	5.8	6.5	6.7	8.2	9.8	*na*
Total	119.4	133.1	160.1	181.1	221.1	236.[illegible]

na Data not available.

account surpluses, a low level of investment expenditure, and rather small overall deficits. Since then, the rapid growth of public investment outlays has led to large budget deficits. Nevertheless, revenues have continued to exceed operating expenditures and the current account surplus has remained at about the 1968 level. Capital expenditures increased by more than 350% between 1968 and 1972. Since there was no equivalent increase in savings, public debt increased sharply, and debt amortization payments have become a major capital expenditure item.

c. *Public debt*

Domestic resources have been inadequate to finance the budget deficits. The government has been forced to tap foreign commercial money markets for about 75% of the funds needed to finance the deficits since 1968 (Figure 9). In 1968 and 1970 it resorted to short-term commercial funds from New York banks. Because of the short term of these credits, external debt servicing obligations shot up from $7 million in 1968 to $29 million in 1970. In 1971, Panama began to restructure its external debt. Most 1971 borrowing and the $55 million in new loans in 1972 had maturities of over 7 years and included a grace period. In January 1973 the country obtained a $65 million, 10-year loan from a group of European and North American banks and expects to cover the remainder of its planned 1973 deficit by long-term loans from the World Bank, the Inter-American Development Bank, and USAID.

3. Financial institutions, monetary policy, and prices

a. *Financial institutions*

With a dollar-based economy free of exchange controls and with liberal corporation and tax laws, Panama has become increasingly attractive as an international financial center In March 1973, 51 banks were authorized to operate in the country, compared with nine in 1964. Only eight are domestic banks. Two of these, the National Bank and the Savings Bank, are government institutions.

The National Bank is the country's oldest bank. Although not a central bank, it acts as the financial agent of the Republic of Panama. Its operations are controlled by a manager and a five-man board of directors of which the finance minister is a member. The bank's role in the country's financial activities has decreased in recent years because of the large increase in the number of banks operating in Panama. Deposits in the National Bank are more sensitive than those in private banks to changes in domestic political conditions. In 1964 and 1968, for example, there were runs on National Bank deposits as a result of political crises, but other banks were unaffected.

The Savings Bank, with about 5% of the total assets of the banking system, is the largest of three mortgage banks operating in Panama (the other two are private Panamanian-owned banks). Its funds are used for granting loans on real estate and on tangibles with open market values, mainly to borrowers in the private sector. The government's share of the bank's credit is very small.

Specialized credit institutions include four private savings and loan associations supervised by the Mortgage Insurance Institute (*Instituto de Fomento de Hipotecas Aseguradas*—IFHA) and 24 finance companies, the most important of which is Industrial Development, created in 1963 with the aid of the U.S. Agency for International Development. There are also 24 insurance companies and some 115 credit cooperatives. There is no stock market. Securities are sold directly or through an intermediary such as a bank or stockbroker.

FIGURE 3. Central government expenditures
(*Millions of Balboas*)

	1968	1969	1970	1971	1972 REVISED BUDGET	1973 BUDGET
Current expenditures:						
Personal services	71.0	76.2	87.0	98.7	111.4	*na*
Non-personal services	3.6	3.6	4.9	5.6	6.4	*na*
Goods and services	6.8	10.4	12.3	11.8	12.1	*na*
Current transfers	25.6	27.6	38.4	35.3	39.2	*na*
Interest on public debt	6.8	10.9	11.1	17.3	25.1	*na*
External	(2.8)	(3.5)	(4.2)	(10.3)	(14.8)	*na*
Internal	(4.0)	(7.4)	(6.9)	(7.0)	(10.3)	*na*
Other	0.7	0.4	0.5	0.3	0.1	*na*
Total	114.7	129.1	154.2	169.0	194.3	205.9
Capital expenditures:						
Investment	25.3	53.9	57.5	45.2	80.0	82.6
Debt amortization	7.3	8.1	28.6	31.9	36.0	58.4
Total	32.6	62.0	86.4	77.1	116.0	141.0
Total expenditures	147.3	191.1	240.6	246.1	310.0	346.9

na Data not available.
*Figures may not add to totals because of rounding.

b. Monetary policy

Panama has limited scope for exercising monetary policy because it has neither a central bank nor a currency of its own. It is one of only five countries in the world without government control over the amount of currency in circulation. The official monetary unit is the balboa, which is equal in value to the U.S. dollar, and both the balboa and the dollar are legal tender. The balboa, however, is issued only as a fractional coinage. The only paper currency is the dollar. Panama's monetary policy, therefore, is closely tied to foreign financial market conditions.

Although Panama has chosen not to have a central bank to control its monetary affairs, a Banking Commission with seven members, representing the government and private banks, was established under the Banking Law of 1970. The Commission has authority to set legal reserve requirements, grant licenses, and regulate interest rates. It is responsible for formulating monetary policy, but its scope for independent action is necessarily limited since changes in the money supply occur mainly as a result of shifts in nonresident bank deposits, over which it has little control.

In the past few years the money supply has grown rapidly. The government has borrowed extensively abroad and has actively solicited foreign deposits. Foreign savings channeled through the banking system, in the form of nonresident demand and time deposits, have risen since 1967 at an annual rate of over 40%. Nearly all of these deposits are held by private commercial banks, two-thirds of them by foreign banks and institutions. The banks have used these foreign funds primarily in overseas credit operations, but an increasing share is going into domestic credit expansion.

c. Prices

Prices have been relatively stable in Panama. The cost-of-living index rose no more than 2% in any year during the 1960's, and the average annual increase for 1960-69 was only 1.2%. Inflationary pressures became noticeable in 1970, mainly because of increased prices for imports. During 1970-72, the cost-of-living index rose by an average of 3.4% annually. The increase in 1972 was 5.6%.

4. Manpower

a. Labor force

The economically active portion of the population, or labor force, is defined as persons 10 years of age and over who are employed or seeking employment. In 1970 the labor force numbered 466,000 or about 33% of the total population. This ratio is about average for Latin America but is low compared with economically advanced countries where a large percentage of females are economically active. In Panama only

FIGURE 9. Financing of public debt
(Millions of Balboas)

	1968	1969	1970	1971	1972 (EST.)
Deficit	27.8	-58.1	-80.4	-65.0	101.9
Identifiable financing:					
External, gross	3.2	38.0	59.5	53.2	78.8
Commercial borrowing	0.0	22.5	41.1	43.9	44.2
Suppliers' credits	0.0	12.4	13.1	0.7	14.0
Official agencies	3.2	3.1	5.3	8.6	20.6
Internal, gross	23.0	21.9	20.0	11.0	21.1
Social security	6.1	7.8	10.3	10.9	12.3
Other domestic bonds	7.9	16.8	7.5	3.0	2.8
Floating debt (excluding Social Security	9.0	-2.7	2.2	3.5	0.0
Other	0.0	0.0	0.0	0.0	6.0
Discrepancy	1.6	1.8	0.9	0.8	2.0
Ratios:					
Savings as percent of amortization	*64*	*48*	*21*	*38*	*40*
Debt service as percent of revenue	*12*	*14*	*25*	*27*	*30*

14.5% of females over 10 years of age were in the labor force in 1960 (the latest date for which information has been published) compared with 51.4% of the males (Figure 10). Employment has been increasing fastest in manufacturing, construction, and commerce, although agriculture still is the leading occupation (Figure 11).

Of the total of 962,000 persons 10 years of age and over in 1970 (excluding Indians), 496,000 were economically inactive. Most of these, especially the students and housewives, could be considered labor reserves. Both unemployment and underemployment are widespread and are serious problems in urban areas.

b. Levels of training

Panamanian workers are poorly educated and trained. Some 40% have had no formal education at all, and fewer than 25% have had more than primary schooling. Agricultural workers are the least skilled and educated. The subsistence farmers are almost totally uneducated and have little incentive to abandon their traditional backward methods.

In the industrial sector skills are more common and productivity is three times that in agriculture. Skill shortages are gradually being overcome largely through adult and on-the-job vocational training, but employment in industry has grown so rapidly that the percentage of totally unskilled industrial workers has increased substantially in the past few years.

FIGURE 10. Participation of population in labor force, by age and sex, 1960
(Percent)

AGE	MALE	FEMALE	TOTAL
Under 15	*4.0*	*1.1*	*2.6*
15 to 19	*63.2*	*23.5*	*43.2*
20 to 24	*92.3*	*31.2*	*62.0*
25 to 29	*95.5*	*28.3*	*62.8*
30 to 49	*96.9*	*27.1*	*63.4*
50 to 54	*95.0*	*21.8*	*60.8*
55 to 59	*92.4*	*17.4*	*55.6*
60 to 64	*81.8*	*12.9*	*48.6*
65 and over	*57.5*	*6.6*	*32.3*
All ages	*51.4*	*14.5*	*33.3*

c. Wages

The average wage level in Panama is higher than in any other Central American country and is one of the

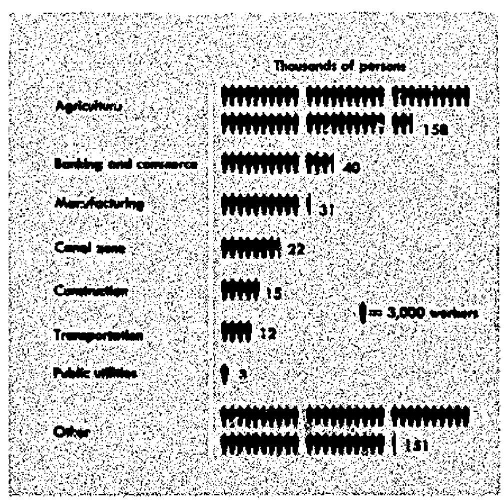

FIGURE 11. Labor force by major economic sector, 1970

highest in Latin America. As shown in the following tabulation of average monthly wages (in Balboas per month), wage levels in the Canal Zone are nearly twice the average for the country:

Private enterprises	172
Banana plantations	145
Central government	183
Autonomous agencies	212
Municipalities	102
Panama Canal Zone	372
Country average	192

A measure approved by the U.S. Congress in 1966 raised the basic hourly wage of local Canal Zone employees to $1.60 per hour, whereas minimum wages in the rest of the country range from 25 to 50 cents per hour for unskilled labor, depending on geographic location and nature of work.

d. *Labor movement*

Organized labor in Panama is weak and has not been an important factor in the country's economic life. Only about 10% of the labor force are union members, predominantly those in urban areas. Many Panamanians are reluctant to become members—some because the unions include West Indians, with whom they have customarily competed for jobs, and others, such as commercial and office workers, because they are seeking middle-class status and are not eager to identify with the laboring class.

D. International economic relations

1. Foreign trade

Panama depends heavily and increasingly on foreign trade. Between 1960 and 1971 exports grew by an average of over 12% annually and imports by 11.3%. The trade deficit also continues to grow, however. Exports covered little more than one-third of imports in 1960 (Figure 12), and although they have grown slightly faster than imports, the divergence in absolute value has widened. In 1971 the deficit was $218 million, equal to roughly 60% of imports and more than three times the $70 million deficit in 1960.

a. *Composition of trade*

Tropical crops provide the major share of export earnings (Figure 13). Improved world prices and new varieties and plantings boosted banana exports to $65 million—about 44% of total exports—in 1971. Shrimp and coffee made up 10% and 2%, respectively. Since construction of the oil refinery in 1962, Panama also has had important quantities of petroleum products available for export and for bunker supplies for vessels

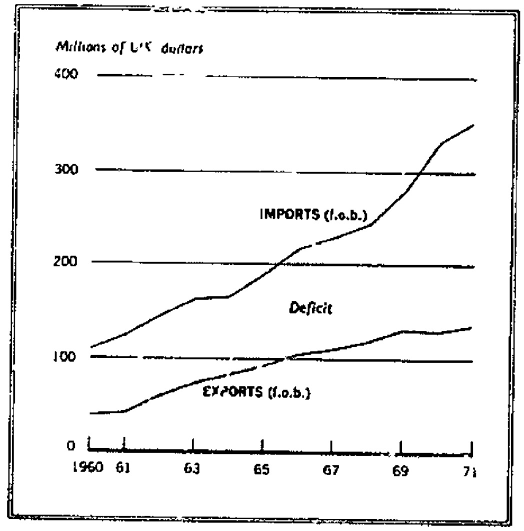

FIGURE 12. Balance of foreign trade

transiting the Canal Zone. Petroleum derivatives and electricity are the most important exports to the Canal Zone.

Manufactures, representing 35% of total imports, are the most important category, because the Panamanian market is too small for substantial development of import-substituting industries. Machinery and transport equipment and fuels have been the most rapidly growing import categories since 1960, however (Figure 14). Crude oil imports, which make up the bulk of the fuels and lubricants category, amounted to about $60 million, or 17% of total imports, in 1971.

b. *Direction of trade*

Trade is strongly oriented toward the United States (Figure 15). Although the U.S. share of Panamanian exports has dropped considerably from its 1960 level of over 95%—mainly because of growing exports of petroleum products to the Canal Zone, Canada, and the United Kingdom and of bananas to West Germany—the United States still accounted for 46% of the total in 1971. The United States also is the chief source of imports, supplying about 35% of the total. Imports from Venezuela, the second most important supplier, account for approximately one-fifth of the total and consist almost entirely of crude oil.

c. *Trade regulations*

Panama's foreign trade is quite free, especially by Latin American standards. Tariffs are relatively low, the effective rate averaging only about 15% in recent

FIGURE 13. Merchandise exports
(Millions of U.S. dollars)

	1960	1967	1968	1969	1970*	1971*	1972*
Bananas	11.6	42.0	53.0	61.2	61.8	62.9	71.0
Refined petroleum	0.0	22.9	18.9	24.1	21.5	25.1	21.5
Shrimp	5.0	9.2	9.7	9.7	10.2	10.4	14.9
Sugar	0.4	3.9	4.6	5.4	5.0	6.3	*na*
Cattle (hoof and meat)	0.0	1.4	1.7	1.3	2.2	1.3	*na*
Coffee	1.3	1.4	0.6	1.1	1.7	0.9	*na*
Cocoa	0.8	0.2	0.2	0.4	0.4	0.4	*na*
Other	0.5	4.2	5.2	5.7	3.5	6.7	*na*
Exports to Canal Zone	8.9	20.4	21.2	22.3	23.3	22.4	*na*
Adjustments	10.5	3.6	2.4	0.2	0.0	0.0	*na*
Total	39.0	109.2	117.5	131.4	129.6	136.4	128.6

na Data not available.
*Preliminary.

years. Import quotas to protect domestic industries have affected only about 170 items. A revised Industrial Incentives Law enacted in August 1971 instituted a mixed system of import quotas, protective tariffs, and tax incentives with the aim of encouraging industrial diversification and promoting exports and import substitution. The main instruments of this law are a series of fiscal exemptions for export-oriented industries and a mix of quotas and tariff protection for import-substituting manufacturing.

The Ministry of Industry and Commerce and the Ministry of Agriculture determine import and export policy in consultation with the Committee of Adjustments. Most import and export licenses are issued by the Office of Price Regulation (ORP), a semiautonomous institution of the government. The ORP also is charged with implementing restrictions of imports of goods that compete with domestic products.

Panama has virtually no restrictions on foreign payments and transfers for either current or capital transactions. The sole exception is the control exercised over payments to Rhodesia in accordance with the United Nations resolution.

2. Relations with the Canal Zone and the Colon Free Zone

a. Canal Zone

Panama has developed a significant trade surplus with the Canal Zone and benefits even more from the exchange of services. Exports to the Canal Zone, Panama's second most important foreign market,

FIGURE 14. Composition of imports*
(Millions of U.S. dollars)

	1960	1967	1968	1969	1970**	1971**	1972***
Food products	13.3	18.8	19.9	20.9	23.3	31.2	*na*
Beverages and tobacco	2.8	2.2	2.4	2.9	3.1	3.5	*na*
Raw materials	1.1	1.3	1.6	1.6	2.8	2.6	*na*
Fuels and lubricants	10.8	47.3	53.0	60.6	62.1	68.2	*na*
Vegetable and animal oils	0.2	0.8	0.5	1.8	0.4	3.8	*na*
Chemical products	11.4	21.2	24.0	26.8	20.2	21.9	*na*
Manufactures	44.6	83.3	83.2	95.8	111.0	124.6	*na*
Machinery and transport equipment	24.1	54.2	58.5	68.1	90.0	90.7	*na*
Other	0.8	0.2	0.3	0.3	0.6	0.4	*na*
Total	109.1	220.3	243.4	278.6	322.5	354.9	400.0

na Data not available.
*Data are from customs returns and do not match balance-of-payments figures that include adjustments for unrecorded transactions.
**Preliminary.
***Estimated.

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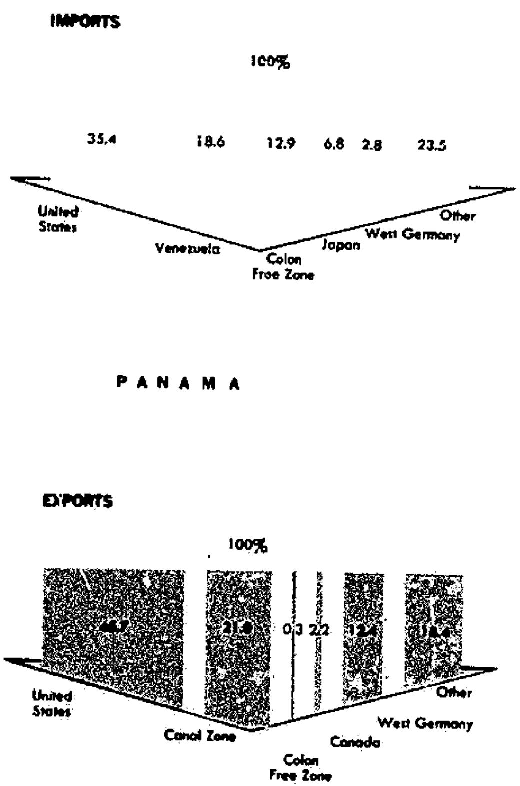

FIGURE 15. Direction of trade, 1971

increased from $9 million in 1960 to $22 million, or 16% of total exports, in 1971, while imports declined from $11 million to about $4 million in the same period. Petroleum exports, which constituted 22% of exports to the Zone in 1971, accounted for most of the export growth. Services yielded Panama net receipts of $125 million in 1971. Receipts consist of salaries and wages of Panamanian residents employed in the Zone by the Panama Canal Company, other U.S. agencies, and private organizations and expenditures by Canal Zone residents, U.S. agencies, and private organizations for services in Panama. Panamanian purchases of services from the Zone amount to only about $2 million annually.

b. Colon Free Zone (Zona Libre de Colon)

The Colon Free Zone is Panama's third most important source of imports (following the United States and Venezuela) and is also a significant source of foreign exchange. Exports from the Free Zone to all parts of the world increased from $16 million in 1953 to $255 million in 1971, and Panamanian earnings of foreign exchange from this source grew from $1 million to $16.4 million in the same period. The Free Zone is unique in the Western Hemisphere as a distribution and processing center serving Latin America and the Caribbean. More than 500 companies involved in international marketing use the Free Zone for warehousing, processing, assembling, and packing.

3. Balance of payments

Until 1955 net receipts from services fully offset Panama's trade deficits. Since then, although services receipts have increased substantially, the trade deficit has grown more rapidly. In 1971 the current account deficit reached a record $75 million (Figure 16). Capital inflows have been insufficient to finance the entire current account deficit and a long-term decline in net nonbank foreign assets has continued. This decline has not had a depressive effect on the economy because of the enormous increase in nonresident deposits in the banking system.

Since 1968 foreign indebtedness of the public sector has increased sharply. Extraordinary foreign borrowing from commercial sources by the Panamanian Central Government to finance its development program raised Panama's external debt from $128 million at the end of 1968 to $215 million at the end of 1972. Debt service amounts to about $40 million a year, equal to about 15% of the total of exports plus net earnings from services.

4. Foreign aid

From World War II through June 1971, Panama received $272 million in U.S. economic aid commitments, about $106 million of which was in the form of grants. The Agency for International Development and its predecessor agencies provided the largest amount, about $166 million, for agricultural development, education, and such projects as roads, urban renewal, and sewer systems. The Export-Import Bank has furnished some $35 million in long-term loans, about $10 million of it for emergency relief and food-for-peace programs. International organizations have provided approximately $130 million in aid. The Inter-American Bank for Reconstruction and Development supplied $60 million of this—$12 million of which was for electric power projects—and the International Development Bank $53 million, mainly for farm feeder roads, housing, water systems, and livestock improvement. Smaller amounts of aid have been contributed by Western European countries, especially Italy, the United Kingdom, and West Germany.

FIGURE 16. Balance of payments
(Millions of U.S. dollars)

	1967	1968	1969	1970	1971
Current account:					
Trade balance (f.o.b.)	123.0	128.5	-152.5	-200.8	-223.5
Transactions with Canal Zone	(17.3)	(17.5)	(20.1)	(18.2)	(18.1)
Transactions with rest of world	(-140.3)	(-146.0)	(-172.6)	(-219.0)	(-241.6)
Freight and merchandise insurance	-22.1	-24.2	-27.7	-32.0	37.2
Other services	116.0	137.3	145.8	166.9	182.0
Transactions with Canal Zone	(98.5)	(111.0)	(120.5)	(121.0)	(125.1)
Transactions with rest of world	(17.5)	(26.3)	(25.3)	(45.9)	(56.9)
Transfer payments	1.7	0.3	1.0	3.8	3.7
Balance on current account	-27.4	-15.1	-33.4	-62.1	-75.0
Capital account:					
Private sector	12.0	13.0	19.2	35.3	17.0
Public sector	2.4	-2.3	33.9	35.0	33.6
Allocation of SDRs	0.0	0.0	0.0	4.7	3.9
Balance on capital account	14.4	10.7	53.1	75.0	55.4
Net errors and omissions	-1.5	-0.8	-30.4	-70.0	-20.6
Net increase (+) or decrease (−) in nonbank foreign assets	-14.5	-5.2	-10.7	-57.1	-40.2

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